

**Testimony of  
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Subcommittee on Trade  
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Mr. Chairman and members of the Committee, it is a pleasure to appear before you today to discuss U.S.-China trade relations and the People's Republic of China's efforts to join the World Trade Organization (WTO). After describing the general trade relationship with China, I will discuss the status of our negotiations for China's accession to the WTO, including progress made at last week's summit, and then turn to some of our bilateral initiatives.

President Clinton and President Jiang Zemin met last week and held an important and constructive summit meeting. The two Presidents had an in-depth and frank exchange of views on an array of issues affecting the entire relationship ranging from human rights to non-proliferation and environmental protection. They agreed to sustained high-level dialogue through regular summits and communication.

On the trade front, we made progress on specific bilateral issues and China's accession to the WTO. Such progress is important, since China is one of the fastest growing economies in the world, with growth rates averaging around 10 percent in recent years. Already possessing the world's largest population, by early in the next century, China may have the world's largest economy.

Today, China is the world's tenth largest trading nation and the United States' fourth largest trading partner. U.S. exports to China have nearly quadrupled over the past decade. The United States is China's largest export market. U.S. imports from China were nearly \$51.5 billion in 1996 (or more than 20 percent of China's exports to the world). By contrast, U.S. exports of goods to China last year stood at \$12 billion. This year, we estimate that the United States' largest trade deficit in goods and services will be with China, surpassing the deficit with Japan.

While the large trade deficit with China is the result of many factors, an important factor is China's failure to provide increased market access as demonstrated by a 2 percent growth in U.S. exports to China in 1996 and 5 percent growth in U.S. exports this year. This is in contrast with a 28 percent growth in China's exports to the United States this year. We must see greater balance in our trade relationship--with high growth in our exports to China particularly in sectors where U.S. companies are most competitive.

Despite China's movement away from a centrally planned economy toward a quasi-market economy in recent years, China's markets still remain relatively closed. China is pursuing an export-led growth strategy while protecting its domestic markets through high tariffs, quotas, restrictive standards and activities of state trading enterprises. In addition, China's failure to meet fundamental international norms--such as national treatment, transparency, or the right to import or export freely--deprives U.S. exports of a level playing field on which to compete.

The Administration trade policy with China is clear. First, we will continue to pursue market opening initiatives on a broad scale for U.S. goods, services and agricultural products through the WTO accession process and bilateral initiatives and agreements. U.S. businesses should have access--and the necessary protection for their properties--in China's market, equivalent to that which China enjoys in the U.S. market.

The second fundamental principle of our trade policy is to ensure that China accepts the rule of law. We seek to encourage China to develop trade and economic policies that are consistent with international trade practices and norms. The rule of law is an important part of ensuring that China provides meaningful market access and underpins our bilateral and multilateral agreements.

### **WTO Accession**

Both China and the United States agree that China's accession to the WTO must be on a commercially meaningful basis. While our bilateral trade agreements cover specific segments of U.S. trade, negotiations on China's accession to the WTO provide an opportunity to address trade issues in a comprehensive and systematic fashion for all sectors of the U.S. economy. The process of negotiating the terms of China's accession to the WTO is a major focus of our efforts to expand market access for U.S. exports, and to bring China into the international rules-based trading system.

China's WTO accession negotiations encompass a number of elements that we can broadly divide into two categories. The first concerns the rules and general principles, such as national treatment, transparency, elimination of non-tariff measures and compliance with WTO agreements such as the Agreement on Application of Sanitary and Phytosanitary Measures. This category would also include any agreed transition periods and other specific provisions to address particular aspects of China's trade regime, e.g., antidumping rules and safeguards. The second broad category concerns the details of market access for industrial and agricultural goods and services. China's tariff and services schedules are an integral part of the protocol. All elements of this package: market access for goods, agriculture and services, acceptance of rules, safeguards and timing, must come together for China's accession to move forward.

China has now adopted a more serious attitude about the accession negotiations. Early this year, negotiators reached agreement on a series of issues related to WTO rules making new commitments related to national treatment (trading rights and non-discrimination), transparency, the TRIPs Agreement, and agriculture export subsidies. On the market access front, China's announcement at last week's summit that it intended to participate in the Information Technology Agreement as soon as possible and that it would agree to further cuts in its tariffs, marked important progress in the negotiations. Let me now briefly review the progress that has been achieved on rules issues and the Summit announcements.

- **Trading Rights (the right to import and export):** In March, China agreed to increase progressively the availability of the right to import and export products so that at the end of three years all foreign individuals and companies and all companies in China will have the right to import and export all products throughout China. This commitment represents a major change in China's trading system since only a comparatively few companies in China now have the right to import goods directly from U.S. companies. This is an important step in providing national treatment to U.S. exports.
- **Non-Discrimination:** China has agreed to eliminate other practices that discriminate against imported goods and foreign producers of goods in China. For example, China will eliminate its system of dual pricing for products and services related to production, distribution, marketing and sale of goods in China. Under the old system, foreigners would be charged much more for air or rail freight or preferential access to these services would be granted to a domestic producer. China has already begun to dismantle its system of dual pricing, thus putting U.S. invested companies on a more equal footing.
- **Transparency:** China has committed to making information available to other governments and to people engaged in trade on all of the issues covered in the WTO. Translations of laws and regulations will be available and WTO members will have the opportunity to comment on proposed laws and regulations before they become effective. Furthermore, China has agreed that it will enforce only those laws and regulations that they publish.
- **Judicial Review of Administrative Decisions:** China will have independent tribunals for the review of administrative actions relating to implementation of the WTO Agreements and grant the right to seek judicial review of these administrative actions. Both steps will help address corruption and encourage development of the rule of law in China.
- **Intellectual Property Rights:** China has committed to implement the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPs) upon accession.
- **Agriculture:** China has agreed not to use export subsidies for agriculture products.

Agreement on these points represents progress in the negotiations. A great deal of work, however, still remains to be done on market access, implementation of WTO rules and our safeguards.

Although China has made some progress, China has not yet presented an acceptable offer on market access issues. China's proposal on tariffs needs improvement on timing of cuts and the number and level of tariff peaks and we need to reach agreement on the cuts on U.S. priority products. We have yet to reach agreement on acceptable phase-out periods for China's remaining quotas, licensing and tendering requirements. Other issues, such as China's application of

mandatory standards for imports, customs valuation and licensing affect our exports access to China's market and must be addressed.

On agriculture, for example, we are now engaged in intensive discussions on market access for key U.S. export products. These discussions encompass tariff levels, administration of the tariff rate quotas that China wants to put in place, the activities of state trading enterprises and the details of China's implementation of the WTO Agreement on Agriculture. We and other WTO members are also urging China to implement the Agreement on Sanitary and Phytosanitary Measures fairly and effectively.

Services is an area of particular concern to the United States and other WTO members. For example, China's commitment on trading rights is only the first step in ensuring that U.S. exports reach customers in China. The ability to engage in all elements of distribution, including after sales maintenance and repair, is key to establishing long term relationships in the market and thus real market access for goods. We are seeking significant commitments from China in a number of other service sectors including telecommunications, financial services, including insurance, professional services and others. We need to see substantial and comprehensive improvements in China's market access offer on services.

### **Summit Results**

At last week's summit meeting, President Jiang recognized that China must accede to the WTO on a commercially meaningful basis. The Presidents agreed "to intensify negotiations on market access, including tariffs, non-tariff measures, services, standards and agriculture and on implementation of WTO principles so China can accede to WTO on a commercially meaningful basis at the earliest possible date." We are prepared to move quickly, but the pace is up to China. Congress has an important role in these negotiations as the Administration will continue to consult closely with members as negotiations proceed.

During the summit, China made two announcements relevant to the WTO. First, China expressed its intention to join the Information Technology Agreement (ITA) as soon as possible. The ITA calls for elimination of tariffs on all information technology products by the year 2000, although extended staging may be allowed for a limited number of products, but no longer than to the year 2005. China must negotiate and all ITA participants must agree to any staging beyond the year 2000. The ITA permits countries and separate customs territories in the process of acceding to the WTO to participate in the Agreement, China may participate in the Agreement prior to completing the WTO accession process. China's participation in the ITA means that countries accounting for approximately 95 percent of trade in these products are participants in the Agreement.

Elimination of tariffs on a wide range of products on which the United States is highly competitive is an important benefit for the United States. This constitutes a major reduction in tariffs in a number of important sectors. China's market for ITA products is growing rapidly. One

estimate places China's total imports of ITA products at \$14.5 billion in 1996 and other estimates are higher. According to industry estimates, China imports about 10 percent of its information technology products from the United States. China's announcement on the ITA is also significant as it is the first time that China has decided to participate in a zero-for-zero initiative.

China's second announcement at the summit indicated a willingness to make further substantial cuts in its tariffs that would lower its overall average tariff rate. Previously, China's applied tariff rate averaged 23 percent. On October 1, China announced reductions in its tariffs that result in an overall average tariff rate of 17 percent. Offering further tariff reductions that result in a substantially lower average tariff rate is a positive step. Ultimately, our assessment of the tariff reductions will depend on whether China meets U.S. requests on priority products and satisfies other key criteria.

China also gave us a new written services offer, an indication that China is taking the negotiations on services more seriously. While some improvements in the offer were made, U.S. requests in important areas like distribution, telecommunications, financial and professional services were not sufficiently addressed. For example, China's offer covers a number of services sectors generally, but provides for liberalization only in a very limited or "experimental" basis. That liberalization is frequently restricted to certain geographic regions. In the telecommunications sector, for example, the offer would permit establishment of two telecom joint ventures with a twenty five percent equity cap in two cities in all of China. We will continue to seek substantial improvements in the offer.

The summit resulted in progress that will form the basis for intensive negotiations over the months ahead. Our negotiators will meet again over the next few weeks to discuss China's market access offers. The APEC Ministerial meetings in Vancouver in November will serve as another important opportunity for discussion. In addition, the next round of formal Working Party meetings is scheduled for December.

### **Bilateral Initiatives and Agreements**

Bilateral initiatives and agreements have been and continue to be an important mechanism to address specific sectoral problems that require immediate action. Monitoring and enforcement of current agreements are also an important part of our work with China. In these contexts, the Administration has demonstrated its willingness to impose sanctions to achieve its objectives. Another important result of our bilateral initiatives is that they often compliment and reinforce the multilateral aspects of U.S. trade policy towards China. Our bilateral agreements on intellectual property rights, for example, provided the foundation for China's commitment to implement the TRIPs agreement immediately upon accession to the WTO. Similarly, effective implementation of agreements and rule of law is a principle that underlies both our bilateral and multilateral agreements.

## **Recent Developments**

The Administration has reached an agreement with China that provides an interim solution to a longstanding problem regarding regulation of U.S. companies providing financial information to China's market. The interim solution secures important market access for foreign financial information companies such as Dow Jones and Reuters operating in China and ensures that Chinese companies and financial institutions will continue to have access to U.S. information services. While the agreement provides an interim solution, we continue to seek commitments from China to provide expanded market access and national treatment for financial information services in China's WTO accession negotiations.

A second recent development involves the insurance services sector. While the United States is requesting China to make significant improvements in its GATS schedule on insurance services, in the interim, we are pleased that China has announced that a second U.S. company, will be licensed to provide insurance in China. Many highly qualified U.S. companies are seeking to enter China's growing market for insurance products and we will continue to press China to expand access to other U.S. insurance companies and to enable them to provide the full range of insurance services.

Finally, last week the United States and China signed an agreement with respect to space launches that will provide effective price disciplines in some of the most rapidly growing areas of commercial space launch activity. The agreement puts new provisions into effect as part of the 1995 U.S.-China space launch accord which clarify conditions included in the pricing of launch services. More information and greater certainty will be provided to industries interested in participating in this market.

## **Ongoing Monitoring and Enforcement Actions**

As a result of our bilateral agreements, U.S. access to China's market is far greater now than it was. Nevertheless, our access falls far short of what it should be. Monitoring implementation and enforcement of these agreements is one way to expand U.S. access and build a foundation for future agreements. Let me briefly review our efforts on some of our significant bilateral agreements.

## **Bilateral Agreements on Intellectual Property Rights**

In 1995, the United States reached an agreement with China on intellectual property rights enforcement, particularly copyrights and trademarks, and improved market access for U.S. firms in the computer software, motion picture, publishing and sound recording industries. In the 1995 Agreement, China committed to put a basic structure in place for enforcement of IPRs at the central and provincial level and in major cities. China also undertook improved Customs enforcement of IPRs at the border and strengthened protection for well-known trademarks.

Over the next year, we carefully monitored China's implementation of the 1995 Agreement. While China created enforcement task forces and embarked on some enforcement efforts, overall piracy rates remained extremely high and U.S. companies were frustrated in their efforts to achieve market access. That is why, in May 1996, the Clinton Administration threatened to take action against China for its failure to implement satisfactorily commitments from the 1995 Agreement.

In June 1996, after substantial verification activities by the U.S. government and U.S. industry, we decided that the Chinese had taken a critical mass of enforcement actions in connection with the 1995 Agreement. Since June 1996, we have seen continued progress and continuing problems. IPR enforcement is now part of China's nationwide anti-crime campaign. China has put in place a functioning enforcement system, based on the 1995 and 1996 agreements, to protect intellectual property. Chinese authorities have shut down 41 factories with 58 CD/CD-ROM production lines, radically cutting back on pirated sound recording production in South China. China's judicial system has become involved in combating IPR piracy and the number of decisions and the severity of penalties have increased.

Despite China's increased efforts, problems remain, particularly in the area of end-use piracy of business software. Piracy rates of entertainment software (game CD's) are also high.

Besides enforcement activities, our copyright industries have made some limited headway on market access. For example, access for foreign sound recordings, stagnant at 120 titles three years ago, reached approximately 1000 titles in 1996. The elimination of quotas should pave the way for Chinese record companies to sign licensing arrangements that capitalize on the companies' entire catalogues. Given that our copyright industries are among the most competitive in the world, we will continue to push for further market access openings in this important area. Moreover, our bilateral IPR dialogue with China is active and we expect progress on fully implementing our IPR agreements and addressing specific concerns that develop.

## **Textiles**

Our February bilateral textiles agreement builds on and improves the 1994 Textiles Agreement with China. For the first time, our bilateral agreement provides market access for U.S. textiles and apparel into China's market. China also agreed to ensure that non-tariff barriers do not impede the achievement of real and effective market access for U.S. textile and apparel exports.

Under this bilateral agreement, China will lower tariff rates over the next 4 years. For certain high priority products, China agreed to accelerate tariff reductions so that they are completed within two years. The first cuts became effective on October 1 of this year.

The issue of illegal transshipments of textiles from China has been a significant concern in the past. In the February 1997 Agreement, we reduced China's quotas in fourteen apparel and

fabric product categories where China agreed that violations of the 1994 Agreement, through transshipment or over shipment, had occurred. Moreover, a special textiles import safeguard mechanism will remain in effect until four years after the WTO Agreement on Textiles and Clothing has terminated.

### **Market Access Agreement**

Obtaining effective implementation of the October 1992 market access agreement is another example of the Administration's continuing pursuit of market openings. In that Agreement, China committed to make significant changes in its import regime, i.e., to eliminate import substitution policies, publish its trade laws in an official journal, apply the same testing and standards requirements to domestic products and imports, decrease tariffs on certain products, apply sanitary and phytosanitary measures only based on scientific principles and eliminate licensing and quota requirements on more than 1,200 products.

China has taken some significant steps in implementing the 1992 Agreement. China's trade regime is now more transparent; China has lowered tariffs on many products and has eliminated well over a thousand non-tariff barriers. While China has removed a substantial number of these barriers, we are concerned with China's tendency to substitute other barriers for the ones removed. On some products in the medical equipment sector, for example, China has replaced a quota with a tendering and registration requirement, which still impedes market access.

A number of other market access problems remain, in particular for U.S. agricultural products. In the 1992 Agreement, China committed to eliminate unscientific sanitary and phytosanitary restrictions used as barriers to market access. China's implementation of this commitment remains incomplete. Over the last four years, we have reached agreement on measures that permit the importation of live horses; delicious variety apples and cherries from Washington State, apples from Oregon and Idaho; cattle, swine, and bovine embryos. This month U.S. growers exported their first shipments of grapes to China. This new market for grapes could reach more than \$45 million in the next two to three years.

We still face unjustified sanitary and phytosanitary (SPS) restrictions on U.S. exports of citrus, Pacific-Northwest wheat, stone fruit, beef, poultry and pork products. While China has granted some access for beef, poultry and pork products through certification and grant of import quotas to individual processing plants, China needs to provide a system wide certification of U.S. plants and eliminate quotas.

For other agriculture products, we seek protocols that will permit access into China's market in the immediate future. We are particularly disappointed with the lack of progress during talks last month on completing a protocol for exports of U.S. citrus to China. Although considerable amounts of U.S. citrus enter China through Hong Kong, Chinese plant quarantine officials have been unwilling to establish formal channels for U.S. exports of oranges, grapefruit and other citrus products. Other countries in Asia accept U.S. citrus. U.S. experts have spent



considerable time and effort addressing China's SPS concerns and we believe that a protocol permitting exports from all major citrus producing states should be completed.

### **Conclusion**

While China has made progress in its WTO accession negotiations, those negotiations are complex and will require extensive further work. The Administration is determined to see China accede to the WTO, but only on the basis of a commercially meaningful agreement. As we proceed along this difficult course, we are committed to working with Congress to ensure that our mutual objective is achieved.